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TAGS: [ENRG](#) [EPET](#) [KZ](#) [RS](#) [TX](#)
SUBJECT: KAZAKHSTAN: PRIME MINISTER AND FOREIGN MINISTER
DOWNPLAY ANNOUNCED GAS PIPELINE DEALS

REF: ASHGABAT 489

Classified By: Ambassador John Ordway; reasons 1.4 (b) and (d).

¶1. (C) Summary: Both Prime Minister Masimov and Foreign Minister Tazhin downplayed the significance of the gas pipeline deals announced during the May 12 tripartite summit in Turkmenistan (Ref A) in separate May 15 conversations with Ambassador Ordway. Masimov told the Ambassador that "all we agreed to was a feasibility study" for a new gas pipeline, and that "only because it was so very important to Putin." Tazhin, in turn, described the deal as a "Russian deal for Turkmen gas," and assured the Ambassador that "we are not cutting off any options" for gas transportation. Masimov also told the Ambassador that the summit had not led to any progress on the issue of Caspian Pipeline Consortium (CPC) expansion, and voiced skepticism that the Government of Russia would ever agree to expansion terms. Masimov acknowledged that the government was preparing itself for a heated battle with Kashagan partners once project delays and cost overruns were formally announced later this summer; in addition to financial compensation, he said, the government might seek a change of operator. End summary.

Downplaying the Gas Pipeline Drama

¶2. (C) On May 15, Prime Minister Masimov downplayed the gas pipeline deals announced during the May 12 tripartite summit in Turkmenistan, telling Ambassador Ordway that "all we agreed to was a feasibility study" for a new gas pipeline, and that Nazarbayev had gone that far "only because it was so very important to Putin." The presidents, he said, had ordered their governments to draw up an agreement for signature by September 1. Masimov portrayed the deal as driven by the Russians and Turkmen, with Kazakhstan involved merely by virtue of geography.

¶3. (C) What Kazakhstan was really after in Turkmenistan was a gas concession, Masimov explained, in order to secure gas supplies for Kazakhstan's gas-deficit Southern population centers. Beyond that, he said, the Government of Kazakhstan (GOK) had pursued railroad and road projects linking the Caspian port of Aktau with Turkmenistan.

¶4. (C) Foreign Minister Tazhin requested the May 15 meeting with Ambassador Ordway, telling the latter that he was fulfilling a commitment he had made to Principal Deputy Assistant Secretary Mann to inform the USG about the discussions in Ashgabat. Like Masimov, Tazhin downplayed the significance of the announced agreements. What had

transpired, he said, was a "Turkmen-Russian deal for Turkmen gas." Kazakhstan, he noted, was only a transit country. The deal did not involve Kazakhstani gas, nor any project on the Kazakhstani shelf. Therefore, he concluded, there was nothing which Kazakhstan had been in a position to say "no" to. Tazhin shared an additional detail of the gas pipeline project with the Ambassador, noting each of the three countries would pay for the construction of that part of the pipeline which passed through its territory, with Kazakhstan recouping its investment by means of transit fees.

15. (C) Tazhin also qualified Nazarbayev's May 10 remark (following a meeting with Putin) to the effect that Kazakhstan was committed to shipping most, if not all, of its oil through Russian territory. Tazhin agreed that, even if CPC expansion was factored in, there was "no way" that Kazakhstan could export all its oil through Russia.

No Progress on CPC Expansion

16. (C) Masimov told the Ambassador that, notwithstanding Nazarbayev's media quotes implying that optimism on CPC expansion was justified, no progress had been made on the issue. "The Russians are not going to agree on CPC expansion," Masimov said flatly. Masimov noted that he would be traveling to Moscow on June 1, where a host of energy issues, including CPC expansion, possible expansion of the Atyrau-Samara pipeline, and the Orenburg gas-processing plant joint venture would be at the top of his agenda. (Tazhin told the Ambassador that the Orenburg negotiations were "very difficult" as well. The Russians were striking a hard bargain, he said, knowing that the cost to the Kazakhstanis

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of constructing their own, alternative gas processing plant were nearly prohibitive.)

Tough Times Ahead for Kashagan Partners

17. (C) Masimov informed the Ambassador that the GOK had hired outside, U.S. consultants -- including Cambridge Energy Research Associates' Daniel Yergin -- in preparation for the formal announcement, later this summer, of Kashagan delays and cost overruns. (Note: The Kashagan partners will present the project's "Final Project Schedule," as well as cost estimates for full field development, to the GOK either in late June or July. End note.) The report, Masimov predicted, would unleash a "storm," as the GOK intended to seek economic compensation for the delays and cost overruns. The GOK might go further, he said, and seek a change of operator. While the GOK was considering a series of options, Masimov concluded, it had no interest in either slowing down overall Kashagan development or forcing any existing partner to sell its stake in the consortium.

Comment

18. (C) While we are encouraged by Masimov's interpretation of what was -- and what wasn't -- agreed to in Turkmenistan, it is clear that our window of opportunity for proving the advantages, both economic and geopolitical, of a Trans-Caspian gas pipeline is closing. In order to counter the momentum squarely now on the side of the Russians, we need to move ahead with our own Trans-Caspian pipeline feasibility study as soon as possible. We may need to rewrite the Terms of Reference in order to obtain at least preliminary results by September 1, in order to give ourselves the evidence and arguments to state our best case.

ORDWAY